

# PUBLIC SPENDING DECISIONS

Growth and Restraint  
in the 1970s

edited by

Maurice Wright

# *Public Spending Decisions*

Growth and Restraint in the 1970s

edited by MAURICE WRIGHT

London

GEORGE ALLEN & UNWIN

Boston

Sydney

First published in 1980

This book is copyright under the Berne Convention. All rights are reserved. Apart from any fair dealing for the purpose of private study, research, criticism or review, as permitted under the Copyright Act, 1956, no part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, electrical, chemical, mechanical, optical, photocopying, recording or otherwise, without the prior permission of the copyright owner. Enquiries should be sent to the publishers at the undermentioned address:

GEORGE ALLEN & UNWIN LTD  
40 Museum Street, London WC1A 1LU

© George Allen & Unwin (Publishers) Ltd, 1980

**British Library Cataloguing in Publication Data**

Public spending decisions.

1. Government spending policy - Great Britain
2. Great Britain - Appropriations and expenditures

I. Wright, Maurice

336.3'9'0941 HJ7766 79-40981

ISBN 0-04-350056-0

Typeset in 10 on 11 point Plantin by Trade Linotype Ltd, Birmingham  
and printed in Great Britain  
by Biddles Ltd, Guildford, Surrey

## *Contributors*

ROYSTON GREENWOOD	Lecturer in Organisational Study, Institute of Local Government Studies, University of Birmingham.
C. R. HININGS	Professor of Organisational Studies and Associate Director of the Institute of Local Government Studies, University of Birmingham.
J. M. LEE	Reader in Politics, Birkbeck College, University of London
STUART RANSON	Lecturer in Organisational Study, Institute of Local Government Studies, University of Birmingham
PETER SELF	Professor of Public Administration, London School of Economics and Political Science, University of London
J. D. STEWART	Professor of Local Government and Administration and Director of the Institute of Local Government Studies, University of Birmingham
K. WALSH	Research Fellow, Institute of Local Government Studies, University of Birmingham
MAURICE WRIGHT	Reader in Government, University of Manchester

## *Preface*

All but the introductory and concluding chapters of this book originate in papers written for the annual conference of the Public Administration Committee convened by Royston Greenwood and myself at the University of York in September 1977. Part of the proceedings on that occasion were devoted to a discussion of the consequences for government of the phenomenon of inflation, and papers on that theme were contributed by the authors of the chapters which follow.

Inflation may or may not be a cause or contributory factor in the increase of public sector spending in the 1970s – economists endlessly dispute. At that time it did appear to us to be significant in the explanation of changing attitudes towards the public sector, and changes in governmental structures and processes seemed to be contingent upon it. Early on in our discussions it became apparent that if there was a casual connection between inflation and those changes, it was a very difficult one to establish. We turned instead to another related factor which seemed more significant in the explanation of change in the public sector in the 1970s – growth and the restraint of growth.

In the hope that we might succeed in producing a book which would be more than a collection of disparate papers, we have discussed, argued and revised our papers since their first airing at York. We have met also colleagues in our own and related disciplines and exposed our arguments to their critical but sympathetic gaze. For one opportunity to do so we owe much to the generosity of the Nuffield Foundation who, at short notice, financed a one-day seminar from which both contributors and discussants emerged bruised but enlightened. Our chapters have benefited greatly from the stimulus of that occasion. For their help and encouragement then I should like to thank Gwyn Bevan, George Jones, David Shapiro and Ron Smith.

Responsibility for the introductory and concluding chapters is mine alone, although I gratefully acknowledge a debt to my fellow contributors with whom I have discussed some of the ideas and issues raised there. Martin Burch, Michael Gahagan and Christopher Pollett read and commented on an early draft of the concluding chapter. I thank them and my colleagues for their help and ready co-operation in the preparation of this book, and for suffering the importunities of an editor for whom deadlines appeared and receded with alarming rapidity. For his confidence in the enterprise, encouragement and, ultimately, patience, I am grateful to Michael Holdsworth of George Allen & Unwin.

MAURICE WRIGHT

*Victoria University of Manchester*

## Contents

List of Contributors	page	viii
Preface		ix
1 Introduction <i>Maurice Wright</i>		1
2 From Growth to Standstill <i>J. D. Stewart</i>		9
3 Incremental Budgeting and the Assumption of Growth: The Experience of Local Government <i>Royston Greenwood, C. R. Hinings, Stuart Ranson and K. Walsh</i>		25
4 The Organisational Consequences of Financial Restraint in Local Government <i>C. R. Hinings, Royston Greenwood, Stuart Ranson and K. Walsh</i>		49
5 The Context of Central Administration <i>J. M. Lee</i>		68
6 From Planning to Control: PESC in the 1970s <i>Maurice Wright</i>		88
7 Public Expenditure and Welfare <i>Peter Self</i>		120
8 Growth, Restraint and Rationality <i>Maurice Wright</i>		142
Index		167

# 1

## *Introduction*

MAURICE WRIGHT

The 1970s were years of expansion, reorganisation and, ultimately, retrenchment in the public sector. Public and semi-public officials grew in numbers not experienced since the last war, and evinced a growing militancy in their conduct of public campaigns to secure improved pay and conditions of work, and to protect programmes of expenditure from cuts and cash limits. By the middle of the decade more than one in four of all those at work was employed in the public sector: 3 million in local government, 2 million in public corporations. One in every seventy-five people in the UK was a civil servant. Public corporations, principally those of the nine major nationalised industries, contributed more than 10 per cent to GDP in 1975, and were responsible for a fifth of its total fixed investment. The National Health Service, employing more than a million workers, cost nearly £5 billion a year to run and re-equip, and had a capital stock whose replacement value was estimated in 1978 to exceed £10 billion.

Not only were there more people in the public sector in the 1970s – by 1975 there were a million more local government employees than twelve years earlier – the public sector consumed a steadily increasing share of the total annual wealth of the UK year by year. At a time of stagnant economic growth, this meant that public spending began to absorb an increasing share of GDP, from 38 per cent in 1971–2 to 46 per cent in 1975–6. On the narrower definition of public expenditure now preferred by the Treasury, the provision of public goods and services as a proportion of GDP rose from 22·7 per cent in 1971–2 to 26·7 per cent by the time of the imposition of financial restraint in the middle of the decade. Unemployment benefits, social security payments, loans, subsidies and other transfer payments increased their share of GDP by 3 per cent in the same period. The ‘social wage’ per head of the working population nearly trebled

## 2 Public Spending Decisions

between 1970 and the middle of the decade, from £465 to £1,275, representing an increase of more than a third in real terms.\*

Growth of a different kind was making it more difficult to demarcate the public and private sectors. The line stretching from 'governmental' to 'non-governmental' was becoming increasingly crowded with *Quagos* and *Quangos*. By 1975 it was estimated that their number exceeded 250, and that they employed some 200,000 people. They were the institutional representation of the many new forms of the growing interdependence between the public and private sectors, adding a further dimension to the increasingly difficult task of controlling the allocation and use of public funds, ensuring value for money and of establishing clear lines of accountability to Parliament and the public.

Public sector growth was checked for the first time in more than twenty-five years in 1974-5 as the annual rate of inflation of retail prices approached 35 per cent. Expenditure in the public sector was said to be 'out of control', and a contributory cause, it was alleged, of that inflation. Steps were taken to restrain current and future growth and then to cut it back in real terms. The immediate consequences for public services were considerable: capital projects were abandoned, left half-completed, or postponed; services were cut back, run down and often left inadequately staffed.

All of this prompted discussion of questions which in an era of growth had been pushed to one side. How large should the public sector be? What kinds of goods and services should be provided collectively? How could the Treasury ensure in a period of high and rising inflation that the estimated costs of providing goods and services in the public sector were not exceeded? Could PESC survive? How would local authorities react to a reduction in the resources allocated to them centrally? Would they and other public sector bodies respond to restraint by planning and managing their resources more rationally? Would local authorities discard the principles of corporate management which some of them had only recently introduced?

Some but not all of those questions are addressed by the contributors to this book. Narrowing the focus, we deal principally with the implications of the growth of public expenditure for the structure and processes of central and local government, and with the consequences in the late 1970s and early years of the next decade of a sustained interruption or cessation of that growth. The implications of an absolute decline in public sector provision in real terms are greater still and more difficult to foresee; we leave them to one side.

\*The 'social wage' is the amount spent per head of the working population on current and capital spending in public expenditure programmes such as social security, health, education, housing, law and order, and subsidies for food, nationalised industries and transport.



The discussion is focused on the assumption of growth, the expectation that public sector services will continue year by year to receive additional increments of resources. We try to expose and probe that assumption from a number of different perspectives and levels of government. We reflect also on the consequences of its removal, as happened in local government in 1974–8, and as we hypothesise may persist there and elsewhere in the public sector in the 1980s. In doing so we pay particular attention to the implications of growth and restraint for the central allocation of resources through PESC, and for the budgetary process of local authorities.

We freely confess the gaps in the scope of our inquiry. The 'Third World' inhabited by *Quagos* and *Quangos*, together with the issue of their control and accountability as well as that of other more conventional public sector bodies, lies outside our present remit. We should have liked to include a discussion of the implications of growth and restraint for the public corporations of the nationalised industries, and to have considered in greater depth than we are able here the implications for central policy departments other than the Treasury. Our inability to do so partly reflects the lack of interest and the paucity of the research effort of our own academic community in these areas of the public sector, compared with for example, local government and the National Health Service.

The first three chapters taken together present a coherent attempt to formulate and test hypotheses about the consequences of restraining public expenditure in local government in the period 1974–8. But John Stewart's opening chapter does much more than provide a theoretical framework for the two empirical studies which follow; while the latter raise issues which are picked up and examined from different perspectives by other contributors later on. More important, John Stewart's chapter provides the starting point and focus for the whole book. In it he outlines two models, one of growth the other of 'standstill', and hypothesises the implications of each for the structures and processes (defined by Hinings, p. 52) of public sector organisations. His growth model is predicated upon an assumption of the continuance of growth, the expectation that annual increments of resources will continue to be available. Over the period of more than a generation of local and central administrators, the assumption of growth has become written into the structures and processes of local and central government. They are characterised, he suggests, by bidding strategies based upon norms, standards and national guidelines. These represent the aspiration to growth. Uniformity of provision becomes the organising principle, and consensus rather than conflict prevails. The building of that consensus is helped by the increased scope for bargaining which the expectation of additional annual increments provides. With time, it is assumed that resources

#### 4 *Public Spending Decisions*

will be available; the principal task of allocation is one of ordering developments over time. Choice is less concerned with the alternative use of resources than with timing.

Remove or relax temporarily the assumption of growth, and with it the experience of growth, then the characteristics of both structures and processes begin to assume new forms. To cope with the same problems and to provide for needs still unmet, organisations search for ways of creating room for manoeuvre in conditions where annual increments have been squeezed or removed. The resource allocation process is widened to include scrutiny of the use of existing resources; future commitments implied in capital expenditure programmes are eschewed or avoided wherever possible; control strategies are substituted; discrimination becomes an important organising principle. Organisational structures and processes become more authority based, and the potential for conflict increases as the buying of consensus with growth becomes more difficult.

These hypotheses about the implications of growth and standstill are empirically tested in the two chapters which follow. Both Royston Greenwood and Bob Hinings examine the implications of the financial restraint imposed through the medium of RSG settlements in the years 1974–8 for a sample of local authorities. Greenwood's principal concern is with the implications of the removal of the growth assumption for the rationality of the budgetary process. He argues that in conditions of financial restraint that process tends to become less incrementalist and 'more rational', as the parameters of budgetary review are widened to include the hitherto sacrosanct 'base spending' in order to make room for 'inescapable commitments' and some further innovation. At the same time, the mode of analysis changes to include the introduction and use of the techniques and procedures of strategic and issue analysis associated with the principles of corporate planning.

In Chapter 4 the test of the growth hypotheses is widened to include both structures and processes. The reorganisation of local government in 1974 was based upon an unwritten assumption about the continuance of the expansion of local authority services, and a commitment by many local authorities to corporate management. When the first of these was falsified by the events of 1974–8, substantial modifications were made to the second. The response of local authorities to the pressure from their environment was mediated through their perception of those pressures in their existing structures and processes. Where corporate practices were only precariously established, a third of them responded by 'retreating' from corporate management. For the majority, however, where corporate values, procedures and practices had become firmly rooted, the response was to try to make corporate management work better, either by

centralising policy planning or adopting a more decentralised and participatory form of corporate management.

The continuation of national economic growth is not a necessary condition of expansion in the public sector. In a period of stagnant industrial production, such as that of the 1970s, the continuing growth of publicly provided goods and services can be financed in other ways, by an increase in the supply of money or by borrowing from abroad, for example. But it can not be done without risking more inflation and unemployment, and an imbalance between the service and manufacturing sectors of industry; nor can it be done for very long before such action is constrained by economic, financial and political factors.

The assumption of continued economic growth and the ability of governments to go on providing it are part of the opening out of the argument in Michael Lee's chapter. His perspective is necessarily broader than that of Greenwood and Hinings. In the context of central administration, he looks for evidence to support the contention that changes in the assumptions of central administrators and politicians about the role of the state in the economy are linked to changes in the international economic order, and that changes in the structures and processes of Whitehall are contingent upon them. To understand what happened to those structures and processes, he argues that it is necessary to understand the relationship between the economy and the political system. One of the principal determinants of that relationship is the assumption made by government about its ability to manage the economy and provide for continuing economic growth. He contrasts the confidence of the 1940s that Keynesian budgetary and fiscal techniques would enable governments to devise appropriate packages for growth, employment and price stability, with the gloom and scepticism which spread through Whitehall in the late 1960s as the coexistence of inflation, unemployment and stagnant industrial production challenged the principles of demand management, reduced the Phillips curve to the status of a curious historical relic, and fuelled the 'limits to growth' debate. Changes in the assumptions of senior administrators and politicians about the role of the state in the economy, and of the domestic economy in the world economic order, led to changes in the structures and processes of the economic and industrial departments, especially the Treasury, as the state's role became more openly and determinedly interventionist and discriminatory. The failure of conventional macroeconomic policies to provide simultaneously for faster economic growth, employment and price stability produced a new emphasis on the co-ordination of economic and industrial policies previously handled in separate Treasury boxes, and inspired the formulation of strategies whose purpose was to persuade, cajole and coerce individual firms and even whole industries to act in ways indicated by the government.

## 6 *Public Spending Decisions*

Scepticism in Whitehall about the government's ability to provide for faster economic growth did not begin to infect the planning of public expenditure through PESC (the subject of Chapter 6), until the middle of the 1970s. By this time the procedures and practices of the annual exercise of allocating resources had become geared to the distribution of additional increments, and sizeable increments at that. While economic growth languished at an annual average of little more than 1 per cent in the first five years of the decade, public expenditure increased in real terms each year by an average of 5 per cent. The monetary cost of financing those extra resources was greater still, and contributed to the growing crisis of control which came to a head in 1974-5. The immediate consequence of the shock which the PESC system sustained at that time was the introduction of cash limits and the installation throughout Whitehall of early warning devices to monitor resource use and cash flow. The longer-term effects were more potentially damaging to the credibility of PESC as a planning system. With the attenuation of the time-horizon, the abandonment of the Medium-Term Economic Assessment, and the swingeing cuts in capital expenditure commitments, it became (at least temporarily) a mainly controlling system.

The implications of financial restraint for the resource allocation process at the centre were different from those at the local level. In central government the assumption of growth was relaxed but not removed completely. Public expenditure continued to grow, albeit at a slower rate. PESC became more, not less, incremental. Whether as a result it became less rational depends upon the view taken of its claim to rationality prior to 1974. It is argued that that claim was vitiated in practice by substantial economic, financial, fiscal and political constraints which became more obvious in the second half of the 1970s.

In Chapter 7 Peter Self moves the argument from structures and processes to the causes and effects of public spending. Why is it, he asks, that despite their growth, many services still seem starved of resources? Rejecting the hypothesis that the growth in public expectation has outpaced improvements in the quality of public provision, or even that there has been such an improvement, he attributes much of the growth of public expenditure to the need to cope with the indirect effects of economic and social change. The problem is manifested in many different ways: as a result of the rate of social change, e.g. the rate of household formation; the need to prevent a decline of welfare, for example, in relation to environmental pollution, delinquency or crime; the need to establish substitute formal social structures for the care of the old, young children and the handicapped. These pressures which contribute to the demand for more and more 'social spending' may diminish with a slowing down of the rate of

omic and social change in a period of "standstill" or depression. the expectation of additional increments to public programmes by now have become so burned into the consciousness of politicians, administrators, interest groups and the electorate that little else is possible in the short term.

A period of 'standstill' or depression generates its own pressures for new kinds of public spending, and here Self suggests that the rising demands of the 1970s for more public expenditure on employment and industrial programmes will add to or replace those for more social spending. Decisions about spending priorities raise a large question of the appropriate welfare criteria to apply in order to measure and evaluate the effects of different kinds of spending. Self's critique of cost-benefit and similar techniques has been developed in his own book. Here, while reminding us that 'techniques of cost-benefit analysis implies some underlying criterion of value', and that techniques such as cost-benefit analysis have little validity except as the application of some social principle, he examines other welfare criteria which might be useful for determining the levels and distribution of resources. One such criterion is that of 'basic standards of material and possibly cultural well-being through public action', but its use, as with other welfare criteria, raises problems of valuing the impact of policies upon recipients when 'basic standards' can often only be expressed in input terms, and express the aims of politicians and professional administrators rather than the wishes of the consumers and citizens. Nevertheless he is optimistic that public expenditure planning might be made more rational, to the extent that it seeks and utilises empirical evidence relevant to the application of several criteria rather than a single chosen welfare criterion.

Self takes issue with Royston Greenwood on the question of rationality in the budgetary process, arguing that where 'rational analysis' is it is a part of the budgetary process, rather than an alternative to 'political bargaining' or 'systems politics'. This discussion is continued in the second part of the concluding chapter by Maurice Gught, where first he probes the assumption of growth a little further. He suggests that explanations of the causes of public sector growth in the 1970s should include reference to the assumption of growth inherent in the attitudes towards the public sector of politicians, administrators and the electorate. When and how that assumption became part of their 'assumptive world' are difficult questions to research, but some progress is possible by trying to trace the connections between changes in the structures and processes of government bodies and perceived changes in the public attitudes of ministers and senior administrators, as Michael Lee suggests. Another way to test the antecedents of the assumption is to translate it into the language employed by trade unionists, politicians and the electorate

## 8 *Public Spending Decisions*

in the running debate about the 'standard of living'. The context for such inquiry is provided by the incorporation of the unions and management into the governmental process, their bargaining over prices and incomes policies, and the emergence of explicit social contracts and tacit agreements on levels of public service provision.

While the analysis of the previous chapters reveals the presence of that assumption, we remain uncertain how it became anchored in the structures and processes of local authorities and central departments. We also show that when the assumption is relaxed or removed changes follow in those structures and processes. How those changes might be further explored is suggested by the contrasting approaches adopted by Greenwood and Hinings on the one hand and Lee and Wright on the other.

Whether such changes have contributed to more rationality in government, as the evidence presented by Greenwood and Hinings suggests, raises familiar but contentious questions of what is rational, and whether it is useful, for example, to argue in the language and concepts used by Wildavsky on the one hand and Dror on the other. Attempts to categorise structures and processes as 'more incrementalist' or 'more rational' may prove misleading. 'Rational analysis' may be introduced and used, it may even become the dominant mode of analysis in a budgetary process, for example, but it does not displace 'politics' or 'political bargaining'. Three concepts of rationality drawn from the arguments of the previous chapters are then briefly discussed: the application of techniques to improve the efficiency and effectiveness of decision making; the application of more 'objective' criteria for determining some parts of the allocation of resources; and the exercise of choice of methods of making allocations. A comparison of the changes in structures and processes at the local and central levels suggests that techniques of rational analysis are being introduced and used increasingly in the allocation of resources within central departments as well as in local authorities. The chapter concludes with a discussion of the evaluation of the effectiveness of public spending decisions, and suggests ways in which the structures and processes of the allocation system might be improved.

# 2

## *From Growth to Standstill*

J. D. STEWART

For most of the last twenty years the public sector has experienced growth in real resources. The size and scale of public expenditure has grown in real terms and as a share of gross domestic product.

There have been exceptions to that growth in particular sectors. Certain nationalised industries – the mining industry and public transport – have faced problems of decline. However, leaving on one side the nationalised industries, the general experience of both central government and local government has been continuing growth in real resources year by year.

Those long years of growth are likely to have had a deep impact on the pattern of working of those governmental organisations. The expectations of those working within and of those controlling the public sector are conditioned by their past experience and that experience was that expenditure would grow in real terms year by year. A continuing pattern is likely to have built expectations that the pattern will continue.

In exploring this theme this chapter draws mainly upon local government experience, where the pattern of continuing growth can be simply illustrated by the manpower figures (Table 2.1). This use of manpower rather than expenditure figures is justified because it avoids the necessity of allowing for the effect of inflation. The growth in manpower represents local government's continuing experience of growth in real resources.

There was no year in the period covered by these statistics in which local government manpower did not increase. With the increase in manpower came other related increases in expenditure. In some years the increases were greater, in other years they were less. But certainly the background against which expectations were formed was of continuous and continuing increase in manpower and hence of expenditure rising in real terms. By 1975 the whole working experience of

Table 2.1 *Local Authority Employment, Great Britain, 1952-1975*

Year	Local authority employees (millions)	Percentage of working population
	Total	Total (%)
1952	1.45	6.2
1953	1.47	6.3
1954	1.49	6.3
1955	1.51	6.3
1956	1.55	6.4
1957	1.59	6.6
1958	1.63	6.7
1959	1.67	6.9
1960	1.70	6.9
1961	1.75	7.1
1962	1.82	7.3
1963	1.89	7.5
1964	1.96	7.8
1965	2.03	8.0
1966	2.13	8.4
1967	2.21	8.7
1968	2.29	9.1
1969	2.34	9.3
1970	2.38	9.5
1971	2.46	10.0
1972	2.56	10.4
1973	2.70	10.8
1974	2.70	10.8
1975	2.90	11.3

Source: *Report of the Committee of Inquiry into Local Government Finance*, Cmnd 6453 (London: HMSO, May 1976).

#### Notes

- 1 All figures include both full-time and part-time workers. (Part-time workers are counted as one.)
- 2 The figures relate to June of each year, except for 1975, where they relate to September and are provisional.
- 3 The loss of certain functions in April 1974 (local health and, in England and Wales, water and sewerage) means that the totals of local authority employees for 1974 and 1975 do not relate to the same services as do those of earlier years.

many in local government lay in this period of unbroken growth.

The figures are national aggregates. In particular authorities at particular times there may have been an occasional break in the pattern of growth. There may even have been authorities in which the break was prolonged. Nevertheless the table represents the general tendency in local government up to 1975.

In 1975 the long period of growth in local government expenditure was reaching an end. Taking local government manpower changes as



set out in the Manpower Watch returns, the year-on-year percentage changes in England and Wales were as follows.

March	1975	–	March	1976	+ 1.7%
June	1975	–	June	1976	+ 1.1%
September	1975	–	September	1976	+ 0.2%
December	1975	–	December	1976	+ 0.1%
March	1976	–	March	1977	– 0.4%
June	1976	–	June	1977	– 0.8%

Source: Christina Howick, 'The Manpower Watch figures', *Centre for Environmental Studies Review*, no. 2 (1978), p. 119.

This records the experience of change from an annual growth rate in manpower of over 5 per cent to a lower growth rate, and finally to standstill and even cutback. The expectation of continuing and continuous growth was not fulfilled.

This chapter suggests that it is because the change was not merely a change in experience but also destroyed expectations that the effect of that change requires study.

#### ORGANISATIONAL ASSUMPTIONS

It is likely not merely that expectations were created in the period, but that around past experience and future expectations grew up patterns of working that reflected experience and were reinforced by expectations. If those working within local authorities and central government had come to see as normality a situation in which expenditure grew in real terms year by year, that perception of normality would begin to influence their behaviour and through their behaviour the procedures and structure of their organisation. It would in effect have become one of the assumptions underlying the functioning of the organisation.

The argument is that the way any complex organisation – public or private – functions depends upon the assumptions made by those who work within it. These assumptions are about the way others within the organisation will behave or about how events external to the organisation will be ordered. These assumptions will but rarely be recorded. They are so readily made that they do not need to be recorded. They may indeed be so readily made that those making them are not aware of that making. They are not written *down*, although it could be argued that they are written *into* the procedures and structure of the organisation in the sense that those procedures and structures take those assumptions for granted. The procedures